R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 23A June 19, 1992

JAPAN SEEKS NEW APPROACHES TO A POSTAPARTHEID SOUTH AFRICA

SUMMARY

For most of the international community political and economic relations with South Africa have been complicated by the explicit policies of racial separation in place there since shortly after World War II. During the last decade intensified global pressure on Pretoria to abandon its apartheid program has presented a particular challenge to the Japanese government and private sector. Japan's strong economic relationship with resource-rich South Africa became a focus of criticism during this period, culminating in 1987 when Japan became that country's top trading partner. The high priority Japan traditionally has placed on trade became a liability in the eyes of critics who charged Tokyo with enacting flimsy constraints on relations with South Africa and faulted Japanese businesses for working around these guidelines to pursue additional business opportunities in that country.

In light of South African President F.W. de Klerk's recent steps to dismantle the institutions of apartheid, Japan and other nations have begun to revise their cautionary view of South Africa. Many questions remain, however, for countries seeking a new relationship with South Africa, since leaders there still are working to establish a fully representational government for their people. Solidifying relations with the disparate forces hoping to lead South Africa will present a challenge to Tokyo and other world capitals. Political as well as economic uncertainties there also are sure to shape the approach of Japan's private sector, which is assessing the opportunities to be found in the changes in South Africa.

Overview

As Japan's international presence has expanded, an absence of historical and geographical ties has hampered close economic and political relations with Africa. The region's severe economic problems also have been a factor. While the Japanese economy relies heavily on industrial and

agricultural inputs found in less developed nations, a relatively small share of Japan's growing trade and investment efforts have been devoted to Africa over the last 40 years or so. Although the oil crises of the 1970s compelled Japanese businesses to turn to the region temporarily as an alternative energy source, the expansion of Japan-Africa trade that followed was short-lived. In 1991 only 1.6 percent of Japan's total imports came from Africa. In contrast, 44 percent originated in Asia and 27 percent were sourced from North America. Moreover, only 1.9 percent of Japanese foreign direct investment in the period through March 1991 was channeled to Africa, compared with 43.8 percent to North America and 15.3 percent to Asia.

Tokyo has attempted to address some of the structural weaknesses hindering Africa's economic development through significant increases in the share and the amount of its foreign aid to the region over the past few years. Official development assistance to Africa totaled $792 million in 1990, the latest year for which country-specific aid figures are available. The outlay represented 11.4 percent of Japan's total foreign aid disbursements that year. In recent months Tokyo also has supported a potential leadership role for South Africa in the economic development of sub-Saharan Africa. Japanese leaders have framed stronger ties to Pretoria as a means of improving Japan's relations with the region and bolstering sub-Saharan stability and growth. The most industrialized economy in Africa offers a well-developed infrastructure and a sophisticated manufacturing sector as credentials for its role in serving as an engine for regional development. These assets, along with South Africa's wealth of strategic minerals, also help account for its strong trade ties with Japan.

While Japan's trade relationship with South Africa is minor in a global context, representing less than 1 percent of its combined exports and imports, in the sense that the partnership dominates Japan's trade relations with Africa, the relationship has much more significance. In 1991 Japan-South Africa trade which totaled $3.5 billion, represented 35 percent of Japan's trade with the continent. Exports to Africa ran $6.0 billion, of which South Africa bought 27 percent. Imports from the continent amounted to $3.9 billion, of which shipments from South Africa came to 47 percent. Moreover, Japan's purchase of almost 7 percent of South Africa's exports in 1990 made it that country's second-largest customer.

Steel, nonferrous metals, nonferrous metal scrap, coal, iron ore and nonmetallic mineral ores lead Japan's imports from South Africa (see Table 1). Like its global shipments, Japan's exports to South Africa are dominated by machinery and transportation equipment, including motor vehicles and electronic goods (see Table 2). Trade between Japan and South Africa expanded rapidly prior to the 1980s when criticism of Pretoria's apartheid policies began escalating worldwide. From under $200 million a year in the early 1960s two-way trade grew to nearly $643 million in 1970 and then to more than $3.5 billion in 1980. Over the next 10 years Japan-South Africa trade remained on a plateau. The level of that plateau relative to other countries' trade with South Africa represented in the eyes of some critics an inadequate response by Japanese leaders to racial discrimination in that country.

Japan's Relations with South Africa Under Apartheid

Japan's political and economic relations with South Africa long have been subject to certain restrictions. Official contacts between the two nations were limited to the consular level from the end of World War II until this past January (see *JEI Report* No. 3B, January 24, 1992). Constraining closer political ties were South Africa's apartheid policies, which, from as early as 1959, Japanese officials have criticized in such forums as the United Nations.

Pretoria's actions over the course of the 1960s to further institutionalize apartheid and suppress political opposition intensified international condemnation of South Africa. During that

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

Table 1: **Japan's Imports from South Africa, 1987-91**

(in millions of dollars; c.i.f. value basis)

	1987	1988	1989	1990	1991
Food	$271.5	$181.5	$299.4	$295.7	$209.0
Sugar	68.1	85.4	86.8	76.6	90.2
Textile Materials	68.1	68.4	54.3	39.2	44.9
Metal Ores and Scrap	249.5	274.7	299.2	345.6	355.7
Iron Ore	136.2	116.3	121.2	127.8	146.0
Nonferrous Metal Scrap	107.3	155.9	174.9	215.8	207.4
Mineral Fuels	315.4	271.6	264.5	256.2	269.4
Coal	311.9	266.6	260.5	248.9	264.5
Other Raw Materials	135.7	179.8	200.3	195.3	187.3
Nonmetallic Mineral Ores	72.8	112.3	123.2	128.5	124.7
Chemicals	38.9	64.4	95.7	65.5	60.3
Machinery and Transport Equipment	17.7	15.7	13.9	18.7	12.4
Other	1,162.4	877.3	807.5	626.9	680.2
Steel	216.5	286.3	337.5	222.3	254.9
Nonferrous Metals	636.2	450.9	278.6	293.8	299.6
Total Imports	2,259.2	1,933.2	2,034.8	1,843.0	1,819.3

Source: Japan Tariff Association

Table 2: **Japan's Exports to South Africa, 1987-91**

(in millions of dollars; f.o.b. value basis)

	1987	1988	1989	1990	1991
Food	$12.0	$10.4	$12.7	$10.1	$9.7
Textile Materials, Fabrics and Clothing	54.4	59.5	49.2	44.1	45.8
Chemicals	77.3	83.5	72.9	68.9	75.9
Nonmetallic Mineral Products	11.1	16.2	17.9	18.6	18.6
Metal Products	116.5	151.2	126.6	103.8	104.9
Steel	87.1	76.3	75.4	57.2	55.8
Machinery and Transport Equipment	1,489.6	1,610.2	1,326.0	1,124.9	1,236.3
Power Generating Machinery	49.0	167.9	199.5	175.1	174.0
Office Machinery	51.4	42.3	28.6	25.8	30.8
Motor Vehicles	373.8	305.4	143.5	119.7	127.0
Scientific and Optical Equipment	65.7	75.9	63.1	63.0	73.0
Audio and Videocassette Recorders and Players	32.8	28.9	19.9	25.4	31.4
Other	102.4	115.9	111.9	106.8	143.6
Total Exports	1,863.3	2,046.8	1,717.3	1,477.0	1,634.7

Source: Japan Tariff Association

decade Tokyo established restrictions on direct investment in South Africa and reconsidered bilateral discussions aimed at establishing full diplomatic relations. In 1961 Pretoria designated Japanese citizens "honorary whites." Although the Japanese government did not officially accept this status, Japanese citizens taking advantage of freedoms generally denied to Asians in South Africa were open to charges that they, in effect, accepted a system of institutionalized discrimination.

During the 1970s many Japanese companies established branch offices in South Africa or arranged with locally owned firms to assemble and/or distribute their products. Several Japanese automotive manufacturers, tire companies and producers of electronics products and appliances established a presence in South Africa during this period. Also early in the decade Japanese steel mills entered long-term contracts to import iron ore and coking coal from South Africa. Japan's large power companies similarly turned to South Africa to meet their increased uranium needs. Japanese trading companies eventually became involved there in infrastructure improvements needed for resource extraction.

Limits on Growing Japan-South Africa Ties - These links contributed to the expansion of Japan-South Africa trade and gave certain Japanese industries, particularly computer and automotive manufacturers, a dominant position in South Africa's markets. As antiapartheid sentiment grew, the Japanese government followed the United States and European nations in 1985 in imposing further constraints on transactions with South Africa. Restrictions announced that year included a ban on the export of computers to government agencies enforcing apartheid and a call for Japanese citizens to refrain from purchasing and importing Krugerrand gold coins. Tokyo also said it would press South African subsidiaries of Japanese companies to promote equal employment opportunities. Meanwhile, Japanese leaders stepped up calls for Pretoria to end its racially discriminatory policies and urged the government to pursue direct negotiations with black nationalist leaders.

The next year Japan again joined the United States and other nations in another round of sanctions against Pretoria. Tokyo announced that it would ban all steel purchases (with the exception of imports already under contract) as well as suspend tourist visas to South African citizens and discourage Japanese tourism to that country. (Restrictions on sports, educational and cultural exchanges with South Africa later were revised to exempt black South Africans and those attending antiapartheid conferences in Japan.) Reciprocal airline landing rights between Japan and South Africa also were suspended. Moreover, Japanese government employees were forbidden to use South African Airways international flights.

International Criticism of Japan's Approach - Yet many in the international community claimed that these measures did little to stem Japanese transactions with South Africa. Some critics charged that Japanese firms could circumvent the restrictions by such means as investing in South Africa through third countries and selling computers to local dealers. Despite Tokyo's policy of discouraging lending to that country, Japanese banks and securities companies reportedly made significant loans to private and government-owned companies in South Africa.[1] Observers argued that such activities would undermine the bans imposed by other nations while benefiting Japanese commercial interests. Concern in the United States that Tokyo would not enforce effectively its sanctions against Pretoria led to the inclusion of an amendment in the Comprehensive Anti-Apartheid Act of 1986 authorizing the president to limit U.S. imports from any country that "benefits from, or otherwise takes commercial advantage of" American sanctions.

An unofficial visit to Japan by South African Foreign Minister Roelof "Pik" Botha in 1986 added to international apprehension about Japan's relations with South Africa. At the same time Prime Minister Yasuhiro Nakasone derogatorily commented that the educational achievements of American blacks and Hispanics lowered the American average. This exacerbated the impression that Japan was insensitive to racial issues. In 1987 international criticism of Japan further intensified when reports of its two-way trade with South Africa listed it as that country's number-one trading partner (see Table 3). In late 1988 when the United Nations General Assembly passed a resolution calling for a ban on trade with South Africa delegates singled out Japan and denounced it for being Pretoria's top

Table 3: **South Africa's Major Trading Partners, 1986-90***

(in millions of dollars; exports f.o.b., imports c.i.f.)

Trading Partner	1986	1987	1988	1989	1990
West Germany					
Exports	$1,941	$2,548	$3,332	$3,263	$3,044
Imports	1,376	1,248	1,727	1,553	1,822
Total Trade	3,317	3,796	5,059	4,816	4,866
Great Britain					
Exports	1,247	1,557	1,912	1,699	1,983
Imports	1,218	1,073	1,425	1,447	1,915
Total Trade	2,465	2,630	3,337	3,146	3,898
United States					
Exports	1,158	1,281	1,691	1,659	1,732
Imports	2,476	1,399	1,575	1,586	1,752
Total Trade	3,634	2,680	3,266	3,245	3,484
Japan					
Exports	1,249	1,882	2,047	1,737	1,491
Imports	2,266	2,436	1,955	2,047	1,858
Total Trade	3,515	4,318	4,002	3,784	3,349
Italy					
Exports	352	456	501	637	694
Imports	1,916	1,788	2,163	2,621	2,546
Total Trade	2,268	2,244	2,664	3,258	3,240
France					
Exports	405	467	581	563	509
Imports	486	583	708	755	750
Total Trade	891	1,050	1,289	1,318	1,259

Note: Ranked in terms of total 1990 trade.

*Based on trading partners' data as reported by the International Monetary Fund. Therefore, West Germany's exports to South Africa are a proxy for South Africa's imports from West Germany, while West German imports from South Africa are a proxy for South African exports to West Germany.

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook.*

trade partner. Certain members of Congress also were stepping up pressure for Japan to further restrict trade with South Africa. The chairman of the Congressional Black Caucus, Rep. Mervyn Dymally (D, Calif.), proposed a model for Japanese behavior in international interracial relations that included a call for Japanese companies to cut off their trade with South Africa. Meanwhile, though, election-year issues crowded out Capitol Hill's efforts to impose additional sanctions on Pretoria.

Tokyo attributed the high trade figures targeted by its critics in large part to the yen's appreciation. Since early 1988, the Japanese government pointed out, trade had been declining in dollar terms; officials cited this as proof of Japan's determination to decrease economic ties with South Africa. In response to the increasing criticism Tokyo had asked Japanese companies earlier that year to keep two-way trade with South Africa at or below the 1987 level in dollar terms.

Yet the decline in transactions with South Africa indicated by Japanese trade figures after 1988 (see Table 4) did not ease charges that Japan was continuing business as usual with that country. Some observers, for example, discounting decreases in Japan's purchases of South African metals,

Table 4: **Japan's Trade with South Africa, 1986-91**

(in millions of dollars; exports f.o.b., imports c.i.f.)

	1986	1987	1988	1989	1990	1991
Exports	$1,355.2	$1,863.3	$2,046.8	$1,717.3	$1,477.0	$1,634.7
Imports	2,228.7	2,259.2	1,933.2	2,034.8	1,843.0	1,819.3
Total Trade	3,583.9	4,122.5	3,980.0	3,752.1	3,320.0	3,454.0

Source: Japan Tariff Association

charged that the firms had shifted to sourcing South African products from third countries. In explaining the limited extent to which imports were cut from South Africa, some Japanese industries claimed dependence on South African products, while others voiced a concern that alternative sourcing would escalate import prices. Several Japanese companies were said to be considering cutting back their operations in South Africa during this period. Matsushita Electric Industrial Co., Ltd., for one, closed its office in Johannesburg in early 1989. Bank of Tokyo, Ltd. and Konishiroku Photo Industry Co., Ltd. also were reported to have pulled out of South Africa.[2] However, a 1990 survey by Washington, D.C.-based Investor Responsibility Research Center Inc. listed no Japanese firms as being among the 181 international companies that had severed direct investment ties with South Africa since 1984.[3]

Pressures on Japan's South Africa Policies and Practices

In enacting economic sanctions against Pretoria in 1986 Congress went against the wishes of the Reagan administration, which argued that such restrictions hurt black South Africans. Many lawmakers felt that the White House position did not reflect that of the American public. Since the Reagan as well as the Bush administration disliked imposing sanctions and did not ask allies to take similar steps, pressure on Japan to limit its economic ties to South Africa stemmed from certain members of Congress as well as church-related and other groups.

Among the groups watching the actions of Japanese companies as well as American firms has been the Interfaith Center on Corporate Responsibility, a coalition of church-related institutional investors. Timothy Smith, executive director of ICCR, says that his group has been critical of certain Japanese companies' sales and nonequity ties to South Africa. Such connections are one factor the group's members consider when making purchasing or portfolio decisions, he has noted.[4]

As antiapartheid protests built up steam across America, institutional purchasers and investors, including cities and states, began examining their ties to South Africa. This process led them to scrutinize the trade and investment policies of the companies they dealt with, including Japanese firms. Currently 140 South Africa-related restrictions are in effect at the state and local level in this country. More than 50 states and localities have selective contracting laws that allow government discrimination against any firms with ties to South Africa. Some observers are skeptical that pressure from interest groups or state and local governments in this country greatly influenced Japanese companies on their decisions vis-a-vis South Africa. Those who acknowledge that some Japanese companies changed their trade patterns include critics who contend that the corporations did so because they were concerned primarily about being inconvenienced in other relationships, not because they were committed to change in South Africa.

A similar complaint has been made against the Japanese government; some observers charge that maintaining smooth ties with the United States was a greater concern to the Japanese government than the state of race relations in South Africa. Others point out that, in the context of a tense bilateral atmosphere, Tokyo recognized the need for caution on this volatile matter and responded by

pursuing a low profile on the issue. Japanese government officials acknowledge that, before F.W. de Klerk became president of South Africa and set in motion the policy of dismantling the apartheid system, Tokyo's stance on South Africa was predicated on avoiding unnecessary criticism. Another perception is that the Japanese government played both sides of the South Africa issue, fostering contacts with the African National Congress, the main opponents of apartheid, as well as with Pretoria. Although criticized by some observers as taking a cynical stance, Japanese government officials have emphasized the importance of dialogue and improved business ties in Tokyo's relations with South Africa. Moreover, Tokyo recently has been encouraged by the Bush administration to pursue what it views as a balanced approach to South Africa.

Foreign observers note that within Japan opposition to the government's policies toward South Africa has been slight. Nonetheless, Foreign Minister Botha's unofficial visit to Japan in 1986 was greeted by demonstrators from the Japan Socialist Party (now known as the Social Democratic Party of Japan) and antiapartheid groups. In 1988 Takako Doi, then chairperson of the Socialist Party, called on Tokyo to impose comprehensive economic sanctions against Pretoria and to renounce its "honorary white" status for Japanese. When President de Klerk visited Japan this June (see *JEI Report* No. 22B, June 12, 1992), antiapartheid activists repeated Ms. Doi's appeal and asked Prime Minister Kiichi Miyazawa to request a formal withdrawal of the label. The groups also presented a petition to Mr. Miyazawa calling on him to withhold loans to Pretoria until an interim government is established in South Africa.

The Japan Anti-Apartheid Committee, a small group established in 1964, also has protested Japanese economic involvement in South Africa. In contrast, groups including the Japan-South Africa Parliamentarians' Friendship League, the Nippon Club of South Africa and the Springbok Club of Tokyo in the past pushed for restoration of full diplomatic and economic ties with South Africa to protect Japanese business interests there.[5] Reportedly there also has been disagreement between and within Japanese government agencies over the timing and the nature of measures to protest Pretoria's policies and, more recently, to encourage reforms.

Responding to Recent Reforms

As President de Klerk began to work toward dismantling South Africa's system of apartheid the Japanese government responded with steps to restore economic and diplomatic ties to that country. In June 1991, following the South African Parliament's repeal of the Population Registration Act — considered the legal foundation of the apartheid system, Tokyo removed certain restrictions on personnel exchanges between the two countries (see *JEI Report* No. 24B, June 28, 1991). At the same time the Ministry of International Trade and Industry indicated an easing of the 1988 guideline concerning trade with South Africa. That October the Japanese government, saying that it considered the reform process in South Africa "irreversible," announced the lifting of most of its remaining sanctions there (see *JEI Report* No. 41B, November 1, 1991). Tokyo's actions on economic sanctions followed similar decisions by the United States, the European Community and the Commonwealth nations. Early this year the Japanese government took another step toward solidifying bilateral relations by announcing the immediate establishment of full diplomatic relations with Pretoria (see *JEI Report* No. 3B, January 24, 1992).

Although most observers concur that Tokyo has moved cautiously toward normalizing relations with South Africa, it has not avoided criticism from the Tokyo office of the African National Congress, which characterized the move to lift sanctions as "overly hasty." The ANC describes the function of its office in Tokyo, like its Washington counterpart, as providing information to ensure that policy toward South Africa is informed. Positions taken publicly by the ANC in Tokyo underscore the complexity of the task that Japan and other nations face as they review their approaches to South Africa. One expert, who preferred to remain unidentified, notes that the question for Tokyo and other governments seeking to restore ties to South Africa will be "bilateral relations with whom?" In preparation for a potentially disparate leadership in South Africa the Japanese government will need to expand its contacts with the ANC, this expert says.

The ANC is encouraging governments not to foster relations with Pretoria until an interim government is chosen, which at this point does not appear to be within easy reach. The Convention for a Democratic South Africa, a forum of 19 political parties participating in negotiations intended to draft a new constitution for the country, currently is stalled over differences regarding the size of the majority needed to approve the new constitution. Many additional questions remain about the transition to democracy in South Africa. Observers note that other nations should be prepared for confusing and contradictory messages from the interim executive council, which is expected to group black leaders, including ANC president Nelson Mandela, and members of the de Klerk government. Mr. Mandela's fall 1990 visit to Japan was viewed by some as a significant step forward for Japan-South Africa relations (see *JEI Report* No. 43B, November 9, 1990), but the long-standing antiapartheid symbol appeared dissatisfied during his visit when then Prime Minister Toshiki Kaifu responded to the ANC's request for financial assistance with the comment that "there is no precedent" for Tokyo to provide direct assistance to political organizations in other countries.

Supporting Reform through Economic Assistance

Japan's potential to help spur South Africa's economic development also was a focus of recent visits by Foreign Minister Botha and President de Klerk (see *JEI Reports* No. 13B, April 3, 1992, and No. 22B, June 12, 1992). Both Japanese and South African officials have emphasized the importance of economic growth to the transition toward democracy. Tokyo has indicated that due to South Africa's relatively high per capita income, support from Japan is most likely to be provided in the form of technical assistance.

Japanese Government Assistance - Japan already has contributed to several South African programs, mostly channeled through third parties, including the United Nations and a Japan-European Community fund (see Table 5). In addition, Tokyo has supported technical training programs in Japan for South African blacks and in FY 1990 initiated a small-scale grant program aimed at providing education, vocational training and other support for black communities. In early 1991 Japan provided a South African nongovernmental organization with funds for scientific equipment to be used by black schools in the Transvaal region; the pledge was its first direct assistance to a South African group. Under the Ministry of Foreign Affairs' coordination two private Japanese groups, the African Society and Risho Koseikai, also fund scholarships for South Africans. The program is administered in South Africa by the African Educational Trust.[6] Although Japan's financial contributions in this area are small compared to those of the United States, to some extent the two governments have followed similar paths.

Over the last 10 years the U.S. Agency for International Development has extended almost $200 million to help South Africa's black population, with FY 1992 funding reaching $80 million. To date the funds have been channeled through South African nongovernmental organizations as set out by the Comprehensive Anti-Apartheid Act, but U.S. officials indicate that once an interim government is in place Washington could extend direct assistance to South Africa. Japanese officials predict that Tokyo also may interpret this politicial development as a go-ahead for government-to-government assistance.

Moreover, Tokyo is considering an expansion of its assistance to the entire southern Africa region, which includes Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe as well as South Africa. In May Tokyo announced an extension of aid worth ¥10.9 billion ($80.7 million at ¥135=$1.00) to drought-stricken southern Africa in anticipation of an appeal from the United Nations and the Southern African Development Cooperation Conference.

Pretoria has emphasized its potential to lead the economic growth of southern Africa, a possibility Tokyo is watching closely. Foreign Ministry officials have indicated that Pretoria's development of good relations with its neighbors will factor into whether Japan looks to South Africa as the locomotive for its development assistance efforts in the region. During Mr. de Klerk's trip to Japan he and Prime Minister Miyazawa agreed to cooperate in promoting the economic development

Table 5: **Japanese Government Support for Antiapartheid Organizations**

(in thousands of dollars)

	Actual FY 1990	Actual FY 1991	Committed FY 1992	Total Through FY 1991
United Nations				
U.N. Trust Fund for South Africa	$20	$20	$20	$400
U.N. Trust Fund for Publicity Against Apartheid	10	10	10	160
U.N. Educational and Training Program for Southern Africa	400	660	660	4,580
UNHCR Political Refugees Program*	0	3,200	0	3,200
With European Community				
Special Joint Programs for South African Blacks	1,000	1,500	2,500	3,950
Small-Scale Grant Program	110	220	270	330
Total	1,600	6,190	n.a.	13,260
Number of trainees accepted by Japan International Cooperation Agency	6	21	40	640

*One-time contribution.

Source: Ministry of Foreign Affairs

of the region; Japanese officials had indicated that regional issues would be an important focus of the trip.

Tokyo tentatively plans to invite leaders of African nations to Japan next year for a meeting to discuss the development issues facing their nations. The Japanese government and the private sector also are slated to participate in a second conference with the New York City-based African-American Institute this year or in early 1993. Last year the first in the series of conferences reviewed coordinated responses toward African development needs (see *JEI Report* No. 32B, August 23, 1991).

Private-Sector Assistance - The Japanese private sector also has taken steps to assist black South Africans. In 1989 the South Africa Trade Association, a group backed by Keidanren (Japan Federation of Economic Organizations), initiated a drive to raise ¥400 million ($2.9 million) to assist "nonwhite" college students and businesses in South Africa. To date ¥320 million ($2.4 million) has been raised; the funds are to be disbursed over 10 years. The program is considered a prototype; a recent Keidanren assessment of the projects underway in South Africa is expected to factor into the organization's decision to contribute additional educational and technical assistance.

Private-Sector Perspectives on Approaching South Africa

Japan's former consul general and recently named ambassador to South Africa, Masatoshi Ota, may have expressed the views of many Japanese interests when he commented, "We're not aiming at this country alone; we see South Africa as the route to the rest of southern Africa."[7] South African officials echo this view, pointing out that, as the most developed country on the continent, South Africa could serve as a jumping-off point for Japanese and other foreign firms considering investment in the rest of Africa.

According to one report, Japan has safeguarded its trade potential with South Africa by consulting with that country's neighbors and securing the go-ahead from the Organization of African Unity to explore investment possibilities there.[8] Japanese business leaders indicate the private sector also has been encouraged by South Africa's recent decision to join the Southern African Development Coordination Conference, which previously sought to narrow its 10 members' economic dependence on Pretoria while coordinating development plans.

Current Presence in South Africa - A number of Japanese companies already have a stake in South Africa. In its 1990 survey the Investor Responsibility Research Center identified three Japanese firms with direct investment (defined as controlling at least 10 percent of the equity in an active company) in South Africa and a further 20 with employees there.[9] In contrast, in late 1991 IRRC listed 104 American firms with direct investment or employees in South Africa and 192 with nonequity links.[10] IRRC cited 43 Japanese firms with nonequity ties to South Africa in 1990. Companies with contracts or licensing, distribution, franchising, technological or trademark agreements with firms in South Africa were included in this second category. In addition, the products of three Japanese companies are distributed in South Africa, although they have no investment or formal nonequity links in that country, according to IRRC. Although 167 American companies have disinvested from South Africa since the beginning of 1986, U.S. companies' nonequity links with that country have been on the rise overall, according to IRRC.[11]

Japan's business community has taken steps to prepare for further involvement in South Africa. This June the Japanese Chamber of Commerce and Industries in South Africa was formed with the intention of coping with the normalization of bilateral relations, according to the new organization's president, Shuji Okita. The group represents more than 30 companies or organizations in the southern Africa region. And last year Keidanren sent a mission to South Africa to assess social and economic conditions there (see *JEI Report* No. 19B, May 17, 1991). The group met with President de Klerk and members of his government as well as antiapartheid leaders and representatives of the black business community. It concluded that restrictions on investments and financial support had affected the economy and the social environment critically.

This May Keidanren led another mission to meet with government and business leaders in South Africa as well as in the Republics of Zambia, Zimbabwe and Botswana. In contrast to last year's trip, which focused on exchanging views with South Africans, the latest mission explored business, investment and development opportunities in the entire region. The fact that a large contingent from Japan's mining and steel industries participated in the recent Keidanren mission indicates one area in which prospects are considered good for increased Japan-South Africa trade. Masamichi Fujimori, who led the business group, specifically commented on the potential for Japan to boost imports of nonferrous ores and metals, including copper and nickel, and to export more mining technology to South Africa.

Potential Areas for Expansion - Other business leaders note that with political instability in the former Soviet Union threatening that important source of precious metals, Japan's automotive industry in particular will be drawn to South Africa. Toyota Motor Corp. officials have indicated that the manufacturer's dependence on South African companies for the platinum used in catalytic converters would increase from the current figure of almost 60 percent to 70 or 80 percent over the next few years.

While Japanese firms' purchases of South African industrial inputs are expected to rise, so also are their sales to that country of consumer goods, including cars and electronics products, especially computers. Analysts anticipate more Japanese firms will invest in mining as well as chemical and certain equipment manufacturing operations in South Africa now that sanctions have been lifted. Japan's private sector also is said to be considering South Africa as an export-oriented manufacturing base. One analyst expects Japanese trading companies to invest heavily in the oil seed sector in South Africa, one of the few regions of the world where the commercial potential of these

commodities remains untapped.[12] The main forum for new investment initially will be joint ventures, possibly with the participation of South Africa's neighbors, according to Japanese and South African observers.

Some Japanese trading companies already have set up affiliated firms as they bid to expand their transactions with South Africa. A representative of Mitsui & Co., Ltd., a major player in Japan-South Africa trade, recently commented that despite the private sector's cautious stance, Japanese trading companies already are competing for business opportunities in southern Africa.[13] Mitsui is said to have set up 55 new affiliates in the southern Africa region with the aim of expanding coal, iron ore and precious metal imports and venturing into new sectors. In contrast, the largest Japanese trading company in South Africa, Nissho Iwai Corp., may expand exports to South Africa by 20 to 30 percent within the next couple of years but is not expected to increase investment there until late 1994 when a new government is in place.[14]

For its part, Pretoria reportedly has conveyed to Japanese business representatives the hope that Japan will help develop South Africa's tourism industry. Growth in this sector apparently is seen as a key to boosting not only personal but business exchanges between South Africa and other countries. Although the Japanese Chamber of Commerce and Industries' Mr. Okita recently predicted that "If all goes well, we could see the first big investment in South Africa in about one year," many Japanese interests remain cautious about increasing trade with South Africa and are particularly wary of committing the capital needed to start up operations there.

Ambivalence Among Investors - During an April visit to Japan, South Africa's Minister for Trade and Industry, Derek Lyle Keys, reportedly made a pitch for Japanese automotive companies to invest in his country. In particular Mr. Keys reportedly hoped to spur Mazda Motor Corp. to invest in South African Motor Corp., which currently imports components from and maintains a licensing agreement with the Japanese manufacturer. Yet Pretoria's current tariff structure and an anticipated rise in production costs appear to have contributed to Japanese automotive companies' caution about expanding their presence in South Africa, where, together with Ford Motor Co., they have a firm hold on the motor vehicle market.

Japanese banks also are expected to move cautiously toward increasing loans to South Africa. In part, Japanese banks are restrained by the need to restrict asset growth to ensure that they can fulfill international capital-asset standards. This currently is of major concern in light of recent stock market losses in Japan (see *JEI Report* No. 17B, May 1, 1992). Another worry is that their U.S. branches might face repercussions from state and local governments with South Africa-related restrictions, particularly in California where major Japanese commercial banks have extensive retail banking operations.

Some members of Japan's business community are waiting to make investment decisions because they do not want to trigger outside criticism for expanding contacts with South Africa too quickly; many are likely to be watching for further international recognition of political progress in that country. The ANC has said that it will call for the removal of economic sanctions once the interim government is in place, a step that is expected to spur localities in this country to lift their South Africa-related restrictions. Japanese officials predict that these events will ease private-sector concerns universally.

Yet many Japanese corporate executives also indicate that South Africa's slow economy and high rates of inflation and unemployment temper the business opportunities the country offers. In recent years inflation has persisted at a pace of 14 percent or greater, while unemployment is thought to be higher for the country as a whole than the 19 percent recorded by Pretoria for 1991. Earlier this year the independent Japan Bond Research Institute of Tokyo gave South Africa a "C" risk rating, ranking that country above the former Soviet Union in its estimate. Many companies in Japan and elsewhere also will be following the development of South Africa's relationship with the International Monetary Fund; normal ties with that body would decrease the economic risks for investors and financial institutions interested in South Africa.

Political stability, however, remains key to investor confidence in South Africa — or the lack of it. With violence continuing to ravage South Africa's black townships, volatility remains high. All three primary political forces in the country maintain armed contingents. The president of the Japanese Chamber of Commerce in South Africa recently noted, "A clear economic policy and political settlement are prerequisites to Japanese investment in South Africa."[15]

Moreover, political transition is expected to bring new economic policies in South Africa. Outside observers have been particularly anxious about the possibility that the ANC will seek to implement nationalization policies; most analysts anticipate some sort of economic redistribution under the new South African administration. Last year ANC leaders reportedly advised the Keidanren mission that South Africa's water and electric utilities plus other providers of economic services could be nationalized. ANC representatives recently have indicated that the party's objective is a "mixed economy" and that they will seek labor-intensive investment; particularly welcome will be companies willing to train black South Africans. During his June Tokyo trip President de Klerk also expressed his expectation that Japanese investment would infuse new technology and elements of entrepreneurship into South Africa.

New Challenges for Japanese Companies and Policymakers

Although governments around the world have eased many of their restrictions on relations with Pretoria, South Africa's transition toward a fully representative government presents new challenges for multinational companies seeking to continue or expand relations with that country. Disparate demands and expectations are likely to face both the private sector and policymakers in Japan as well as other nations.

Expectations for the Private Sector - Many observers see a socially responsible approach as crucial for companies seeking to expand their ties with South Africa. While black leaders are expected to accept some international investors more enthusiastically than others, those companies that look beyond business outcomes and make a concerted effort to address social needs are more likely to have smooth relations with South Africa. The extent to which foreign investors recruit black South Africans for management positions is expected to be a key factor in their success. Observers also note that it will be particularly important for investors to work with South Africa's unions. Union membership in that country more than doubled between 1978 and 1988; underlying this growth was a spurt in membership among black South Africans. This March the Congress of South African Trade Unions announced a draft investment code that encourages guidelines on work conditions, affirmative action, training and social programs.

Groups in South Africa as well as companies and church organizations in this country are formulating their own suggested guidelines for investing in South Africa. Antiapartheid activists in Japan used the occasion of President de Klerk's recent visit to urge Prime Minister Miyazawa to advise corporate Japan regarding possible codes of conduct that would ensure favorable treatment for black South Africans. Social responsibility in South Africa may be a particularly sensitive issue for Japanese investors, some of which in the past have been charged with failing to meet community expectations in this country (see *JEI Report* No. 18A, May 4, 1990). Currently some Japanese companies involved in South Africa support educational and small business development programs there. Yet some Japanese business representatives caution that while a number of companies may see attention to social needs as part of their investment in South Africa, others may be reluctant to take on the costs and the complications of this responsibility.

Challenges for the Japanese Government - To press for political and social change in South Africa both the private sector and the government in Japan have employed the threat of limited bilateral economic relations. The Japanese government frequently has issued statements calling for an end to apartheid and, most recently, encouraging the de Klerk government to continue with political reforms. Moreover, Japanese government officials feel that by supporting President de Klerk's reform

efforts, expressing concerns about violence in South Africa and promoting bilateral business ties, Japan can continue to serve an important role in encouraging the process of democratization underway in Pretoria.

Yet some observers believe that Japan could be taking a larger part in the transition process. Japan's current and potential economic presence in the region provides Tokyo with a strong voice in South Africa. Vivian Derryck, president of the African-American Institute, notes that there is a great deal of respect in South Africa for Japan's economic success and disciplined work force.[16] She observes that South Africa's multiethnic work force will pose abundant challenges for that country and suggests that Japan could make a significant contribution to South Africa by providing training for workers.

While Tokyo considers the constitutional negotiations underway in Pretoria strictly a domestic matter for South Africans, some observers in this country emphasize that Japan could contribute to a process of political convergence by more visibly encouraging the parties involved to continue their talks and by challenging Pretoria to deal with the violence in that country. ANC representatives note that their party has not approached individual governments regarding an intermediary role in CODESA; however, through such forums as the United Nations and the Organization of African Unity the ANC has called on the international community to press Pretoria to conclude the agreements necessary to move ahead with the transitional government. Once the interim administration is in place, observers note, South Africa may turn to the international community for such needs as monitoring the internal security of that country.

Outlook

A Japanese government spokesman described President de Klerk's recent visit to Japan as opening "a new page in our bilateral relations" and said that the event would be a major impetus for stepping up relations with South Africa. As that country strives to achieve equitable political and social structures Japanese policymakers and business leaders are likely to face myriad challenges to shape new approaches to a postapartheid South Africa.

As business interests around the world begin to compete for the opportunities offered by changes in South Africa, certain companies from Japan as well as the United States have advantages. Observers point out that many South Africans appreciate Japan as a model of economic success while lauding this country for its support of racial equity in the region. At the same time, growing globalization implies that those seeking new ties to South Africa will need to address the expectations of an increasingly international audience as well as a more inclusive South Africa.

For more information, contact **Margo Grimm**.

Tooru Ando provided research assistance.

Notes

[1]Eliphas G. Mukonoweshuro, "Japanese Commercial Interests in South Africa," *Journal of Contemporary Asia*, XXI, No. 1, 1991, p. 49.

[2]Hayashi Koji, "A Halfhearted Anti-Apartheid Policy," *Japan Quarterly*, July-September 1989, p. 272.

[3]Alison Cooper, *International Business in South Africa 1990* (Washington, D.C.: Investor Responsibility Research Center Inc., 1990).

[4]Telephone interview with Timothy Smith, executive director of the New York City-based Interfaith Center on Corporate Responsibility, May 28, 1992.

[5]William Nester, "Japanese Neomercantilism Toward Sub-Saharan Africa," *Africa Today*, Third Quarter, 1991, p. 46.

[6]Institute of International Education, *Foreign Mission Funding in South Africa* (New York, N.Y.: forthcoming).

[7]"Welcoming the rising sun," *Financial Mail*, October 25, 1991.

[8]John Battersby, "Japan Cultivates Trade Ties with South Africa," *The Christian Science Monitor*, May 20, 1992, p. 7.

[9]Cooper, *op. cit.*

[10]News release issued by Investor Responsibility Research Center Inc., November 8, 1991.

[11]Alison Cooper, *U.S. Business in South Africa 1991* (Washington, D.C.: Investor Responsibility Research Center Inc., 1991), and *Ibid.*

[12]Telephone interview with Eric Enig, vice president of international marketing division, Enig Associates, Silver Spring, Maryland, April 14, 1992.

[13]Joy Tadaki, "Wariness tempers business's optimism after resumption of South Africa trade," *The Japan Times*, June 2, 1992, p. 3.

[14]*Ibid.*

[15]*The Star*, June 5, 1992, cited in press stories compiled by the South Africa Foundation.

[16]Telephone interview with Vivian Derryck, president of African-American Institute, New York, New York, June 2, 1992.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.